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SUBJECT: Canada warns "Buy American" legislation would trigger global protectionism.

SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT ACCORDINGLY

11. (SBU) The "Buy American" provisions in the U.S. economic stimulus bill in the Senate have received widespread critical attention in Canada - the United States' largest trading partner.

-- Running front-page headlines, newspapers across Canada have been uniformly negative about the "Buy American" provisions.

-- On January 29, when the provisions were limited to steel, Prime Minister Harper stated that "this is obviously a serious matter and a serious concern to us. I know that countries around the world are expressing grave concern about some of these measures, that go against not just the obligations of the United States, but frankly, the spirit of our G20 discussions. We will be having these discussions with our friends in the United States, and we expect the United States to respect its international obligations."

-- On February 2, Canadian Ambassador to the United States Michael Wilson sent a letter (see paragraph 2) to Senate Leaders Harry Reid (D) and Mitch McConnell (R) expressing Canada's concern over the "Buy American" provisions. (International Trade Minister Day has also written a similar letter to A/USTR Allgeier and the Department of Commerce, following up their discussions in Davos.)

-- On February 2, senior Department of Foreign Affairs and International Trade (DFAIT) officials and officials in Day's Cabinet told EMIN that the "Buy American" provisions were "extremely worrisome." The officials expressed concern that the controversy might "sidetrack" President Obama's February 19 visit to Ottawa, and expressed their hope that the issue would be resolved soon.

12. (U) Begin text of Wilson letter

CANADIAN EMBASSY

Dear Majority Leader Reid and Minority Leader McConnell,  
I am writing to you to express Canada's concern about a possible broadening of "Buy American" provisions in the American Recovery and Reinvestment Act currently under consideration by Congress. In November, G-20 leaders agreed that protectionism would fuel the economic crisis. Canada views some elements of the legislation you will be considering this week as protectionist and contrary to the very goals of economic recovery that this bill is intended to support.

We are concerned about contagion, that is, other countries also following protectionist policies. If Buy America becomes part of the stimulus legislation, the United States will lose the moral authority to pressure others not to introduce protectionist policies. A rush of protectionist actions could create a downward

spiral like the world experienced in the 1930s.

We support the implementation of a stimulus plan to offset the impacts of the global downturn. We submitted our own plan to Parliament on January 27. We are mindful that the response to the global economic crisis will only succeed if governments work cooperatively and in a coordinated manner. In this vein, we have deliberately chosen to avoid the introduction of new protectionism measures, as agreed to during the G20 summit.

Specifically, given the highly integrated nature of our two economies, it is in both our national interests to resist the pull of growing protectionism in implementing our respective economic stimulus packages. One third of all cross-border trade between Canada and the United States takes place within companies with a presence on both sides of the border; and two-thirds is within established supply chains. Over \$1M worth of trade and commerce crosses our border every minute, and approximately 7 million U.S. jobs are supported by that trade with Canada. Importantly, the United States enjoys a surplus of exports in manufactured goods to Canada. We are your largest single customer. If either of our governments were to introduce new barriers or preferences at this time, we would load increased costs and burdens onto businesses, cause delay, disrupt and distort the way businesses have organized themselves in our two countries, and decrease North American competitiveness, thereby killing jobs rather than creating them. We recognized concerns about "leakage" - taxpayer money going to create jobs in other jurisdictions. However, our two countries build goods together; and our supply chain is fully integrated. These concerns have to be balanced against the real costs to our respective economies and treasuries of restricting competition and the free flow of goods and services.

For both international and bilateral considerations, we would ask

OTTAWA 00000084 002 OF 002

you to ensure that the legislation does not include elements which restrict trade, such as broadened "Buy American" provisions. In any event, we assume that the United States will comply with its international trade obligations. A negative precedent set here in the United States can have repercussions around the globe and could provoke debilitating beggar-thy-neighbour policies. In the end, we got into this economic crisis together. We need to work together to build ourselves out of it.

Yours sincerely,

Michael Wilson

c.c.: United States Senate

End text of letter.